

Message Text

PAGE 01 STATE 192840
ORIGIN DLOS-09

INFO OCT-01 ARA-14 ISO-00 OES-09 /033 R

DRAFTED BY D/LOS:RCBLUMBERG:AFR
APPROVED BY D/LOS:ROBERT BLUMBERG
-----028173 010205Z /21

P R 312152Z JUL 78
FM SECSTATE WASHDC
TO AMEMBASSY LIMA PRIORITY
INFO AMEMBASSY QUITO

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FOR AMB. RICHARDSON AND ALAN JAMES

E.O. 11652: N.A.

TAGSBLOS

SUBJECT: ARTICLE IN THE WALL STREET JOURNAL DATED MONDAY,
JULY -31, 1978

1. THE FOLLOWING ARTICLE APPEARS IN TODAY'S WALL STREET
JOURNAL:

QTE: SEABED SLOWDOWN. TIMETABLE IS SLIPPING IN PROGRAMS
TO MINE METALS UNDER THE SEA. --LOW PRICES AND UNCERTAINTY
MAKE CONCERNS CAUTIOUS; NICKEL IS TERMED THE KEY--
VACUUM CLEANER VS. BUCKETS. BY HERBERT G. LAWSON (STAFF
REPORTER OF THE WALL STREET JOURNAL).

--THE DREAM OF MINING THE FABLED HOARD OF METALS THAT
LIES MILES BENEATH THE SURFACE OF THE WORLD'S OCEANS IS
GROWING MORE ELUSIVE.

--UNTIL VERY RECENTLY FOUR CONSORTIA OF MULTINATIONAL
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COMPANIES, LED BY U.S. AND CANADIAN CORPORATIONS SUCH AS
KENNECOTT COPPER CORP., U.S. STEEL CORP., LOCKHEED AIR-
CRAFT CORP. AND INCO LTD., WERE BETTING THAT THE FIRST
COMMERCIAL PRODUCTION WOULD BEGIN BY 1985. THEY HAVE
POURED \$150 MILLION OR MORE INTO INITIAL TESTING AND

EXPLORATION OF THE POTATO-SIZED NODULES THAT LIE ON THE
SEA FLOOR THROUGHOUT THE WORLD AND ARE RICH IN NICKEL,
COPPER, MANGANESE AND COBALT. THEY HAVE FIGURED THAT AT
LEAST SEVERAL BILLION DOLLARS MORE WILL BE SPENT TO BEGIN

PRODUCTION.

--NOW, PROGRAMS ARE BEING CUT BACK. IN AT LEAST ONE GROUP, TECHNICAL TEAMS ARE BEING DISPERSED AND SOPHISTICATED EQUIPMENT IS BEING DISMANTLED AS THE PROSPECTS DIM FOR QUICK SUCCESS IN DEEP-SEA MINING. TIMETABLES ARE SLIPPING AND, WHILE MOST COMPANIES SAY THAT EXPLOITATION OF THE SEA BOTTOM IS INEVITABLE, THEY GENERALLY AGREE THAT THE 1985 GOAL ISN'T ATTAINABLE NOW. SOME LOOK TO 1990 OR BEYOND.

--"THE FIRST COMMERCIAL SYSTEM CERTAINLY WILL BE IN THE LATE 1980S OR EARLY 1990S," SAYS JOHN SHAW, PRESIDENT OF OCEAN MANAGEMENT INC. OF BELLEVUE, WASH. MR. SHAW WAS AMONG THOSE WHO EARLIER PREDICTED A 1985 START. HIS COMPANY COORDINATES THE DEEP-SEA EXPLORATION EFFORT OF THE CONSORTIUM THAT INCLUDES INCO, THE BIG CANADIAN NICKEL PRODUCER, SEDCO INC. OF DALLAS AND FOUR GERMAN AND 23 JAPANESE COMPANIES.

FIRM FACES SHUTDOWN

--OCEAN MANAGEMENT INC. PROVIDES THE MOST DRAMATIC EXAMPLE OF THE GROWING CAUTION AMONG SEA-BED MINERS.
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THE COMPANY PROBABLY WILL BE SHUT DOWN, ITS SMALL GROUP OF TECHNICAL EMPLOYEES RETURNING TO THE CONSORTIUM MEMBERS THAT CONTRIBUTED THEM. THE SEDCO 445, A 445-FOOT VESSEL THAT RECENTLY BROUGHT UP 850 TONS OF NODULES SOUTHEAST OF HAWAII IN THE BIGGEST TEST BY ANYONE TO DATE, WILL BECOME AN OIL-DRILLING VESSEL AGAIN, AND ITS SPECIAL MINING GEAR WILL BE SOLD OR SCRAPPED.

THERE ARE TWO REASONS FOR THE NEW PESSIMISM. THE FIRST IS ECONOMIC. PRICES OF NICKEL AND COPPER, THE KEY METALS CONTAINED IN THE TRILLIONS OF TONS OF NODULES ESTIMATED TO LIE ON THE SEA FLOOR, ARE SHARPLY DEPRESSED BY WORLD-WIDE OVERPRODUCTION FROM LAND MINES. THERE IS LITTLE HOPE FOR ANY QUICK PRICE RECOVERY AND THUS LITTLE APPETITE FOR THE HUGE CAPITAL OUTLAYS TO TAP THE OCEAN ORES. SOME EXPERTS ESTIMATE THAT NICKEL PRICES WILL HAVE TO RISE 50 PERCENT AND COPPER PRICES WILL HAVE TO DOUBLE TO MAKE SEA-BED MINING ECONOMIC.

--THE SECOND IS POLITICAL. THE MINING COMPANIES ARE GROWING WEARY OF THE UNCERTAINTY OVER WHO WILL BE ABLE

LEGALLY TO MINE THE SEA FLOOR AND UNDER WHAT NATIONAL OR INTERNATIONAL RESTRAINTS AND TAXATION THEY WILL OPERATE.

CONGRESS NEARS ACTION

--THE POLITICAL HURDLES GET SLIGHTLY MORE EMPHASIS THAN ECONOMIC WOES THESE DAYS. A 158-NATION UNITED NATIONS CONFERENCE ON THE LAW OF THE SEA HAS BEEN WRESTLING SINCE 1973 WITH A TREATY THAT WOULD GOVERN ACCESS TO THE OCEANS.

--MANY LESS-DEVELOPED COUNTRIES ARE INSISTING THAT THE TREATY SET UP AN INTERNATIONAL AGENCY WITH POWER TO RIGIDLY CONTROL ALL DEEP-SEA MINING, INCLUDING POWER TO LICENSE AND SET PRODUCTION LIMITS AND TAX OUTPUT.
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THESE COUNTRIES FEAR THAT THE MAJOR INDUSTRIAL NATIONS ARE THE ONLY ONES WITH THE CAPITAL AND TECHNOLOGY TO HARVEST THE OCEANS' RICHES. THEY INSIST THAT OCEAN MINERALS BELONG TO EVERY NATION EQUALLY. ALSO, THOSE EMERGING NATIONS THAT NOW DEPEND HEAVILY ON LAND-BASED MINING FOR EXPORT EARNINGS FEAR THAT THEIR MARKETS MAY BE DISRUPTED BY LARGE-SCALE SEA MINING, AND THUS WANT A HAND IN CONTROLLING IT.

--THE U.S. IS RESISTING GIVING SUCH SWEEPING POWER TO A SUPRANATIONAL AGENCY. MEANWHILE, CONGRESS FINALLY APPEARS CLOSE TO PASSING A BILL THAT WOULD SET UP MACHINERY FOR LICENSING U.S. SEA-MINING COMPANIES AND WOULD GUARANTEE THAT ANY SUBSEQUENT TREATY WOULDN'T JEOPARDIZE CLAIMS ALREADY STAKED. THE HOUSE JUST PASSED ITS VERSION OF SUCH A BILL BY A 312-80 VOTE, SENDING THE MEASURE TO THE SENATE.

--THE LAW OF THE SEA CONFERENCE IS SCHEDULED TO RESUME NEXT MONTH IN NEW YORK. MARNE DUBS, THE KENNECOTT EXECUTIVE WHO HEADS THAT COMPANY'S SEA-MINING PROGRAM, SAYS HIS CONSORTIUM (WHICH INCLUDES BRITISH PETROLEUM COMPANY AND MITSUBISHI OF JAPAN) WON'T GO FORWARD WITH ITS NEXT MAJOR STEP, THE BUILDING OF A FULL-SCALE MINING VESSEL, UNTIL SEVERAL THINGS HAPPEN.

INTERNATIONAL TREATY SOUGHT

--"WE'LL WAIT UNTIL THE LAW OF THE SEA IS SETTLED, EITHER THROUGH DOMESTIC LEGISLATION OR THE TREATY, AND UNTIL WE SEE THAT SOME OF THE WORLD-WIDE METALS OVER-PRODUCTION IS USED," MR. DUBS SAYS. "WE DON'T SEE (AN END TO THE METALS GLUT) UNTIL AFTER 1980."

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--SOME CONSORTIA MEMBERS WORRY THAT CONGRESS, EVEN IF IT ENACTS AN ACCEPTABLE LAW THAT SETS CLEAR RULES FOR OCEAN MINING COMPANIES, EVENTUALLY WILL HAVE TO BOW TO A LAW-OF-THE-SEA TREATY THAT COULD WIPE OUT RIGHTS GRANTED BY

CONGRESS. "INCO'S POSITION," MR. SHAW SAYS, "HAS ALWAYS BEEN THERE HAS TO BE AN INTERNATIONAL TREATY."

--THE U.S. HAS A GREAT DEAL AT STAKE IN THE TIMING OF SEA-BED MINING. IT NOW IMPORTS NEARLY ALL ITS MANGANESE AND COBALT, 90 OF ITS RAW NICKEL AND ABOUT 20 OF ITS COPPER. SEABED MINING EASILY COULD MAKE THE NATION SELF-SUFFICIENT IN EACH OF THESE METALS. ASIDE FROM NATIONAL-SECURITY BENEFITS, THE IMPACT ON THE U.S. BALANCE OF PAYMENTS COULD BE PROFOUND. J. G. WENZEL, CHAIRMAN AND PRESIDENT OF OCEAN MINERALS CO., THE OPERATING ARM OF A CONSORTIUM THAT INCLUDES LOCKHEED, ROYAL DUTCH/SHELL AND STANDARD OIL CO. (INDIANA), CALCULATES THAT THE U.S. COULD SAVE 40 BILLION DOLLARS IN FOREIGN PAYMENTS BY THE YEAR 2000 IF SEA-BED MINING STARTS BY 1985.

--LOCKHEED'S CONSORTIUM, PUT TOGETHER JUST LAST YEAR, IS MORE OPTIMISTIC THAN OTHERS. IT IS MOVING AHEAD WITH A CATCH-UP PROGRAM THAT WILL HAVE SPENT \$60 MILLION TO \$80 MILLION BY YEAR-END, WITH OUTLAYS TOTALING UP TO 200 MILLION DOLLARS PROJECTED BY THE EARLY 1980'S, CONSORTIUM OFFICIALS SAY. THE CONSORTIUM HAS LEASED THE GLOMAR EXPLORER, THE MOST SOPHISTICATED EXPLORATION SHIP IN THE WORLD, FROM THE U.S. NAVY. THE SHIP, WHICH GOT WIDE PUBLICITY FOR ATTEMPTING TO RAISE A SUNKEN SOVIET SUBMARINE, WILL SAIL LATE THIS YEAR FOR ;ATERS SOUTHEAST OF HAWAII TO TEST MINING GEAR AND SCOOP UP ORE SAMPLES.

--THE TECHNOLOGY OF MINING NODULES AT DEPTHS OF THREE MILES OR MORE IS CONSIDERED PROVED; ONLY THE ENGINEERING TASK OF SCALING UP FROM TEST-SIZE TO FULL-SIZE VESSELS UNCLASSIFIED

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AND EQUIPMENT REMAINS TO BE COMPLETED. THE PREFERRED MINING TOOL APPEARS TO BE A KIND OF VACUUM-CLEANER HEAD THAT SUCKS THE NODULES INTO PIPE TRAILED BY THE MINING SHIP, WHICH HAS ULTRASENSITIVE STABILIZING AND NAVIGATIONAL GEAR. ONCE RAISED FROM THE DEPTHS, THE NODULES WILL BE HAULED BY BARGE TO PROCESSING SITES ON LAND. AN ALTER-NATIVE MINING METHOD, A CONTINUOUS LINE OF BUCKETS REVOLVING TO THE OCEAN FLOOR AND BACK TO THE SHIP, MAY BEUSEDINMORERUGGED TERRAIN.

--THE LOCKHEED GROUP WORRIES THAT THE CUTBACKS BY OTHER CONSORTIA MAY CAUSE CONGRESS TO DECIDE THAT NO LEGISLATION

IS NEEDED NOW. "IT WOULD BE DISASTROUS IF CONGRESS GOT THE IDEA THAT INDUSTRY IS SLOWING DOWN AND THEREFORE THERE IS NO HURRY FOR LEGISLATION," MR. WENZEL SAYS. CONRAD WELLING, VICE PRESIDENT, PROGRAMS, AT OCEAN MINERALS, ADDS: "THE FIRST COMMERCIAL PROCESSING

COULD BE IN THE MID-1980'S IF WE GET LEGISLATION. IF WE DON'T, IT WILL BE THE 1990'S."

--IF LEGAL AND POLITICAL PROBLEMS ARE WORKED OUT, COMPANIES SAY THEY ARE READY TO PUSH AHEAD AS SOON AS THE EXPECTED END IS IN SIGHT FOR LOW METALS PRICES. U.S. STEEL, WHOSE CONSORTIUM INCLUDES SUBSIDIARIES OF SUN CO. AND UNION MINIERE S.A. OF BELGIUM, SAYS OCEAN-BED MINING WON'T PAY OFF AT CURRENT PRICES. BUT IT FORESEES PRICE IMPROVEMENT EVENTUALLY TO LEVELS THAT WOULD JUSTIFY THE \$500 MILLION TO \$1 BILLION INVESTMENT FOR A SINGLE-PLANT OPERATION.

--"WE ANTICIPATE A VERY LARGE INCREASE IN NICKEL AND COPPER PRICES," SAYS PHILLIPS HAWKINS, A U.S. STEEL VICE UNCLASSIFIED

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PRESIDENT WHO IS PRESIDENT OF OCEAN MINING ASSOCIATES. "THE PRICE OF MANGANESE WILL GO VERY MUCH HIGHER 10 TO 12 YEARS FROM NOW, AND MANGANESE IS GOING TO BE EXHAUSTED WITHIN 25 YEARS AS FAR AS HIGH-GRADE LAND SOURCES ARE CONCERNED. UNLESS NEW LAND MINES ARE DISCOVERED, WE WILL HAVE TO TURN TO THE SEA." MANGANESE IS ESSENTIAL TO STEEL-MAKING, AND THE U.S. NOW MUST IMPORT 98 PERCENT OF ITS SUPPLY FROM AFRICA, SOUTH AMERICA AND AUSTRALIA.

THE KEY TO THE ECONOMICS

--KENNECOTT BELIEVES THAT NICKEL "IS THE KEY TO THE ECONOMICS" OF OCEAN MINING, SAYS THE COMPANY'S MR. DUBS. PRICES AREN'T POSTED, BUT NICKEL GENERALLY NOW SELLS FOR "NO LESS THAN \$2 AND NO MORE THAN \$2.10 A POUND," HE SAYS. THE PRICE TO JUSTIFY OCEAN MINING, HE FIGURES, WOULD HAVE TO BE \$2.80 TO \$3.20 A POUND.

--THE UNDERSEA NODULES ARE COMPOSED LARGELY OF MANGANESE (25 PERCENT TO 30 PERCENT); THEY CONTAIN ONLY 1.5 NICKEL AND EVEN SMALLER AMOUNTS OF COPPER AND COBALT. HOWEVER, COMPANIES FIGURE THAT A SINGLE OCEAN-MINING OPERATION COULD PRODUCE NEARLY ALL THE MANGANESE NEEDED BY U.S. INDUSTRY, SO MOST CONSORTIA ARE COUNTING ON EXTRACTING ONLY NICKEL, COPPER AND COBALT. IN SUCH AN OPERATION, NICKEL WOULD CONTRIBUTE NEARLY TWO-THIRDS OF REVENUE, ACCORDING TO A RECENT STUDY BY HAWAII'S DEPARTMENT OF PLANNING AND ECONOMIC DEVELOPMENT. THE STUDY SAYS THAT

A PLANT AND RELATED SHIPS COSTING OVER 500 MILLION DOLLARS WOULD REQUIRE ABOUT 235 MILLION DOLLARS YEARLY TO OPERATE MINING AND PROCESSING FACILITIES. THE OPERATION WOULD JUST ABOUT BREAK EVEN, WITH 262 MILLION DOLLARS IN YEARLY REVENUE AT CURRENT METALS PRICES.

--SUCH NUMBERS CAUSE EXECUTIVES SUCH AS MR. DUBS TO

COMMENT "MY PERSONAL VIEW IS THAT COMMERCIAL PROCESSING
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WILL BEGIN POST-1985 RATHER THAN BY 1985. THE WHOLE
SCHEDULE HAS SLIPPED; IF I HAD TO GUESS. I'D SAY THE
SLIPPAGE IS A COUPLE OF YEARS." AS RECENTLY AS LAST
SEPTEMBER, A KENNECOTT PUBLICATION OBSERVED THAT A
\$2.8 BILLION INVESTMENT BY ALL MINING COMPANIES BY
1979-80 WOULD ENABLE FULL-SCALE PRODUCTION TO BEGIN BY
1983.

STATES WOO COMPANIES

--SUCH A HUGE INVESTMENT, WHENEVER IT COMES, WOULD BE
A BOON TO MANY STATES AND LOCALITIES. HAWAII, BUOYED
BY THE DEVELOPMENT OF ITS FIRST GEOTHERMAL STEAM
WELL, IS MOST ACTIVE IN COURTING PROSPECTIVE OCEAN-
MINING COMPANIES. THE GEOTHERMAL WELL OPENS THE POSSI-
BILITY OF CHEAP AND PLENTIFUL ELECTRIC POWER FOR
PROCESSING.

"I'M CONVINCED THAT HAWAII WILL BE ONE OF THE EARLIER
PLACES WHERE REFINING OF OCEAN ORES TAKES PLACE," SAYS
HIDETO KONO, STATE DIRECTOR OF ECONOMIC PLANNING AND
DEVELOPMENT.

--U.S. STEEL'S MR. HAWKINS, HOWEVER, DOUBTS THAT
HAWAII, WITH ITS TRADITIONAL DEPENDENCE ON IMPORTED
OIL FOR ENERGY, IS A SUITABLE SITE. "THEIR LACK OF
ENERGY IS A VERY SERIOUS DRAWBACK," HE SAYS. HE ADDS
THAT THE CALIFORNIA COAST IS PREFERABLE BECAUSE OF ITS
CLOSENESS TO THE RICHEST NODULE BEDS IN THE WORLD--IN THE
PACIFIC OCEAN SOUTHEAST OF HAWAII--ITS INDUSTRIAL DEVELOP-
MENT AND AVAILABLE ENERGY. BUT ENVIRONMENTAL RULES
THAT WOULD AFFECT A GIANT METAL-PROCESSING OPERATION
ARE SO STRINGENT IN CALIFORNIA, HE SAYS, THAT "I DOUBT
WE'LL BE ABLE TO COMPLY." THE GULF COAST STATES,
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INCLUDING TEXAS, ARE ALTERNATIVES, HE ADDS.

--IN ANY CASE, INDUSTRIAL-DEVELOPMENT EXECUTIVES DON'T
HAVE TO WORRY ABOUT PUTTING OUT THEIR WELCOME MATS SOON
FOR THESE MINING COMPLEXES. MR. SHAW OF OCEAN MANAGEMENT
NOTES THAT IF FULL-SCALE PROCESSING IS DELAYED UNTIL
1990, "YOU'RE TALKING ABOUT 1985 FOR A SITE DECISION."

AND IN DALLAS, JOHN RHEA, SENIOR VICE PRESIDENT OF
SEDCO, SAYS THAT "WE HAVEN'T EVEN ADDRESSED THE ISSUE"
OF PICKING A PLANT SITE. VANCE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 26 sep 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRESS COMMENTS, LAW OF THE SEA
Control Number: n/a
Copy: SINGLE
Draft Date: 31 jul 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE192840
Document Source: ADS
Document Unique ID: 00
Drafter: D/LOS:RCBLUMBERG:AFR
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Expiration:
Film Number: D780313-1076
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197807106/baaaezki.tel
Line Count: 327
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Message ID: c473566b-c288-dd11-92da-001cc4696bcc
Office: ORIGIN DLOS
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1858120
Secure: OPEN
Status: NATIVE
Subject: ARTICLE IN THE WALL STREET JOURNAL DATED MONDAY, JULY -31, 1978
TAGS: PLOS, SOPN, US
To: LIMA INFO QUITO
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/c473566b-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014